

THE BUSINESS SITUATION

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REAL GROSS domestic product (GDP) increased 3.7 percent in the second quarter of 1994 after increasing 3.3 percent (revised) in the first, according to the advance estimates of the national income and product accounts (NIPA's) (chart 1, table 1).<sup>1</sup> Goods other than motor vehicles accelerated, and structures turned up; in contrast, motor vehicles turned down sharply, and services slowed.

Real gross domestic purchases increased 4.4 percent after increasing 5.0 percent (table 2). (Gross domestic purchases differs from GDP in that it excludes exports, and includes imports, of goods and services.) Half of the second-quarter increase reflected a sharp increase in inventory investment, as businesses added \$54.0 billion to inventories, more than at any time since the fourth quarter of 1987. Final sales to domestic purchasers slowed to a 2.2-percent increase from a 3.9-percent increase. Personal consumption expenditures slowed sharply; purchases of durable goods, nondurable goods, and services all contributed. Residential investment increased a little less than in the first quarter; single-family structures more than accounted for the slowdown. Nonresidential fixed investment increased at about the same rate as in the first quarter, as an upturn in structures offset a slowdown in equip-

1. Quarterly estimates in the NIPA's are expressed at seasonally adjusted annual rates, and quarterly changes are differences between these rates. Quarter-to-quarter percent changes are annualized. Real, or constant-dollar, estimates are expressed in 1987 dollars.

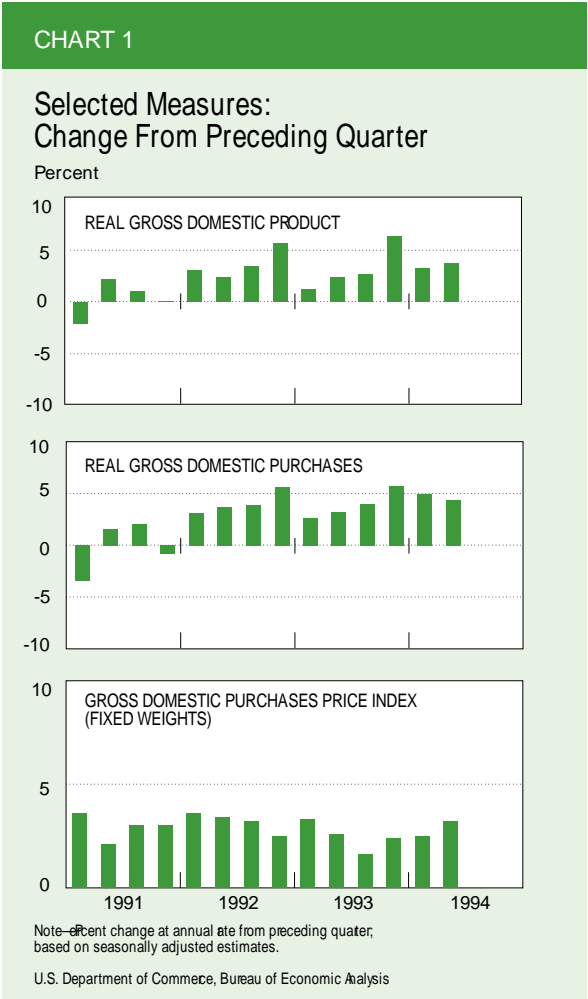


Table 1.—Real Gross Domestic Product, by Major Type of Product  
[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1993		1994	
		1993		1994		III	IV	I	II
		1994:II	III	IV	I				
Gross domestic product .....	5,309.2	34.0	78.6	43.1	48.1	2.7	6.3	3.3	3.7
Goods .....	2,196.4	8.3	57.3	33.3	27.6	1.6	11.5	6.4	5.2
Motor vehicles .....	225.0	-9.8	22.2	18.0	-10.6	-17.8	53.8	37.4	-16.8
Other .....	1,971.4	18.1	35.1	15.3	38.2	3.9	7.7	3.2	8.1
Services .....	2,637.2	17.6	5.1	14.6	11.4	2.7	.8	2.3	1.7
Structures .....	475.6	8.1	16.2	-4.8	9.1	7.4	15.0	-4.0	8.0

NOTE.—Most series are found in NIPA table 1.4. Output of motor vehicles is the sum of auto output and truck output, from tables 8.4 and 8.6, respectively.

ment. Government purchases decreased much less than in the first quarter, largely reflecting a smaller drop in national defense purchases.

Exports and imports are the link between goods and services produced in the United States (GDP) and goods and services purchased by U.S. residents (gross domestic purchases). In the second quarter, exports turned up, and imports accelerated.

The fixed-weighted price index for gross domestic purchases increased 3.2 percent after increasing 2.5 percent. The fixed-weighted price index for GDP increased 2.9 percent after increasing 3.1 percent.

**Motor vehicles.**—Motor vehicle output and final sales to domestic purchasers fell in the second quarter after two consecutive steep increases; inventories increased but remained low. Both autos and trucks contributed to the drops in output and sales; trucks more than accounted for the increase in inventories.

Output fell 16.8 percent in the second quarter after increasing 37.4 percent in the first, and final sales to domestic purchasers fell 9.1 percent after increasing 30.9 percent (table 3). A decrease in auto sales was largely accounted for by domestically produced models. A decrease in truck sales was more than accounted for by light domestic

**Table 2.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers**

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1993		1994	
		1993		1994		III	IV	I	II
		1994:II	III	IV	I				
<b>Gross domestic product</b> .....	<b>5,309.2</b>	<b>34.0</b>	<b>78.6</b>	<b>43.1</b>	<b>48.1</b>	<b>2.7</b>	<b>6.3</b>	<b>3.3</b>	<b>3.7</b>
Less: Exports of goods and services .....	636.1	-4.9	29.9	-5.6	16.5	-3.2	21.7	-3.5	11.1
Plus: Imports of goods and services .....	749.5	12.0	25.8	16.2	25.9	7.4	16.0	9.5	15.1
<b>Equals: Gross domestic purchases</b> .....	<b>5,422.6</b>	<b>51.1</b>	<b>74.4</b>	<b>64.9</b>	<b>57.5</b>	<b>4.0</b>	<b>5.8</b>	<b>5.0</b>	<b>4.4</b>
Less: Change in business inventories .....	54.0	-5.9	-2.2	14.6	28.6	.....	.....	.....	.....
<b>Equals: Final sales to domestic purchasers</b> .....	<b>5,368.6</b>	<b>57.0</b>	<b>76.6</b>	<b>50.3</b>	<b>28.9</b>	<b>4.5</b>	<b>6.0</b>	<b>3.9</b>	<b>2.2</b>
Personal consumption expenditures .....	3,557.1	33.0	34.0	40.1	10.8	3.9	4.0	4.7	1.2
Nonresidential fixed investment .....	659.1	16.9	29.3	16.4	15.5	12.2	21.1	10.9	10.0
Residential investment .....	233.8	4.7	13.5	5.4	3.9	9.4	28.2	10.0	7.0
Government purchases .....	918.7	2.5	-3	-11.6	-1.2	1.1	-1	-4.9	-5

NOTE.—Dollar levels are found in NIPA tables 1.2 and 1.6. Percent changes are found in table 8.1.

**Table 3.—Motor Vehicle Output, Sales, and Inventories**

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1993		1994	
		1993		1994		III	IV	I	II
		1994:II	III	IV	I				
<b>Output</b> .....	<b>225.0</b>	<b>-9.8</b>	<b>22.2</b>	<b>18.0</b>	<b>-10.6</b>	<b>-17.8</b>	<b>53.8</b>	<b>37.4</b>	<b>-16.8</b>
Autos .....	126.7	-9.2	13.0	7.9	-8.4	-26.6	53.9	27.3	-22.6
Trucks .....	98.3	-6	9.2	10.1	-2.2	-2.9	53.6	52.8	-8.5
Less: Exports .....	19.2	-1.5	2.5	1.2	-8	-29.7	77.0	28.1	-15.1
Autos .....	13.7	-1.1	1.3	1.3	-9	-29.6	50.9	45.2	-22.5
Trucks .....	5.5	-4	1.2	-1	.1	-29.9	167.7	-7.1	7.6
Plus: Imports .....	61.2	0	-4	-1.6	6.9	0	-2.8	-11.0	61.4
Autos .....	52.2	1.4	-6	-1.7	6.6	12.6	-4.9	-13.6	71.7
Trucks .....	9.0	-1.4	.2	.1	.3	-46.0	9.9	4.7	14.5
<b>Equals: Gross domestic purchases</b> .....	<b>267.0</b>	<b>-8.3</b>	<b>19.3</b>	<b>15.2</b>	<b>-2.9</b>	<b>-12.9</b>	<b>37.1</b>	<b>26.1</b>	<b>-4.2</b>
Autos .....	165.2	-6.7	11.1	4.9	-9	-16.0	33.0	12.7	-2.1
Trucks .....	101.8	-1.6	8.2	10.3	-2.0	-7.0	44.4	51.9	-7.5
Less: Change in business inventories .....	1.6	-3.5	7.3	-2.5	3.5	.....	.....	.....	.....
Autos .....	-4	-4.9	7.2	-5.2	2.8	.....	.....	.....	.....
Trucks .....	2.0	1.4	.1	2.7	.7	.....	.....	.....	.....
<b>Equals: Final sales to domestic purchasers</b> .....	<b>265.4</b>	<b>-4.8</b>	<b>12.0</b>	<b>17.7</b>	<b>-6.4</b>	<b>-7.6</b>	<b>21.3</b>	<b>30.9</b>	<b>-9.1</b>
Autos .....	165.6	-1.8	3.9	10.1	-3.7	-4.5	10.4	27.9	-8.5
Trucks .....	99.8	-3.0	8.1	7.6	-2.7	-12.7	42.9	36.1	-10.1

NOTE.—Dollar levels for most series are found in NIPA tables 8.4 (autos) and 8.6 (trucks).

trucks and may have reflected shortages in the supply of popular models.

Motor vehicle sales to consumers decreased 7.6 percent after increasing 19.4 percent; autos accounted for most of the decrease. The weakness in sales to consumers was consistent with an increase in interest rates, a deceleration in real disposable personal income, and a downturn in the Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center).

Sales to business fell 16.4 percent after increasing 58.5 percent. Trucks, which had increased for eight consecutive quarters, accounted for most of the decrease.

Truck inventories increased for the second consecutive quarter. Auto inventories decreased slightly after a larger decrease in the first quarter; in units, the inventory-sales ratio for domestic new autos edged up to 2.3 from 2.2—just below the traditional industry target of 2.4.

### Prices

The fixed-weighted price index for gross domestic purchases increased 3.2 percent in the second quarter, and the price index for gross domestic purchases less food and energy increased 3.5 percent (chart 2, table 4). For both indexes, the increases were about 1 percentage point higher

## Second-Quarter 1994 Advance GDP Estimate: Source Data and Assumptions

The advance GDP estimate for the second quarter is based on the following major source data, some of which are subject to revision. (The number of months for which data were available is shown in parentheses.)

*Personal consumption expenditures:* Sales of retail stores (3) and unit auto and truck sales (3);

*Nonresidential fixed investment:* Unit auto and truck sales (3), construction put in place (2), manufacturers' shipments of machinery and equipment (3), and exports and imports of machinery and equipment (2);

*Residential investment:* Construction put in place (2) and housing starts (3);

*Change in business inventories:* Manufacturing and trade inventories (2) and unit auto and truck inventories (3);

*Net exports of goods and services:* Exports and imports of goods and services (2);

*Government purchases:* Military outlays (3), other Federal outlays (3), State and local construction put in place (2), Employment Cost Index (3), and State and local employment (3);

*GDP prices:* Consumer Price Index (3), Producer Price Index (3), price indexes for nonpetroleum merchandise exports and imports (3), and values and quantities of petroleum imports (2).

The Bureau of Economic Analysis (BEA) made assumptions for source data that were not available. Table A shows the assumptions for key series; a more comprehensive listing of assumptions is available on the Department of Commerce's Economic Bulletin Board or from BEA.

**Table A.—Key Data Assumptions for Advance Estimate, 1994:II**

[Billions of dollars, seasonally adjusted at annual rates]

	1994					
	January	February	March	April	May	June
Fixed investment:						
Nonresidential structures:						
Buildings, utilities, and farm:						
Value of new nonresidential construction put in place .....	130.9	125.8	132.3	135.7	136.3	<sup>1</sup> 138.4
Producers' durable equipment:						
Manufacturers' shipments of complete aircraft .....	22.8	17.5	32.6	15.6	15.0	<sup>1</sup> 25.9
Residential structures:						
Value of new residential construction put in place:						
1-unit structures .....	149.9	152.9	155.0	156.3	156.9	<sup>1</sup> 155.3
2-or-more-unit structures .....	10.9	11.4	12.0	12.6	13.2	<sup>1</sup> 13.3
Change in business inventories nonfarm:						
Change in inventories for manufacturing and trade (except nonmerchant wholesalers) for industries other than motor vehicles and equipment in trade .....	22.6	50.6	-9.9	43.1	100.2	<sup>1</sup> 16.2
Net exports:						
Exports of merchandise:						
U.S. exports of merchandise, excluding gold, balance of payments basis .....	462.4	449.1	504.7	484.5	485.4	<sup>1</sup> 485.6
Imports of merchandise:						
U.S. imports of merchandise, excluding gold, balance of payments basis .....	606.0	611.6	642.1	644.6	654.3	<sup>1</sup> 656.9
Net merchandise trade (exports less imports) .....	-143.6	-162.5	-137.4	-160.1	-168.9	<sup>1</sup> -171.3
Government purchases:						
State and local:						
Structures:						
Value of new construction put in place .....	110.3	107.5	110.8	109.1	110.9	<sup>1</sup> 111.8

1. Assumed.

than the average for the preceding four quarters and were close to the average for 1991 and 1992.

Prices of personal consumption expenditures increased 2.8 percent after increasing 1.9 percent. Much of the step-up was in "other personal consumption expenditures" and was largely accounted for by motor vehicles and medical services. Food prices increased 1.3 percent after increasing 1.1 percent; accelerations in poultry and nonalcoholic beverages were largely offset by downturns in pork and processed dairy products. Energy prices decreased 0.8 percent after decreasing

1.5 percent, as gasoline and oil decreased less than in the first quarter, and electricity and gas were unchanged after decreasing.

Prices of nonresidential fixed investment increased 2.4 percent, about the same rate as in the first quarter. A moderate step-up in producers' durable equipment was largely offset by a slowdown in structures. The step-up in equipment prices reflected, in part, an acceleration in motor vehicle prices and a smaller drop in computer prices than in the first quarter.

Prices of residential investment increased 2.8 percent after increasing 4.5 percent.

Prices of government purchases increased 4.9 percent after increasing 4.3 percent. The acceleration reflected prices paid by the Federal Government, which increased 7.7 percent after increasing 4.8 percent. A step-up in prices of national defense purchases partly reflected a steep upturn in the price of petroleum products; a step-up in prices of nondefense purchases partly reflected retirement incentives ("buyouts").

The price index for GDP, which measures the prices paid for goods and services produced in the United States, increased 2.9 percent after increasing 3.1 percent. This index, unlike the index for gross domestic purchases, includes prices of exports and excludes prices of imports. Export prices increased 2.8 percent after increasing 3.8 percent. Import prices increased 5.9 percent after decreasing 2.7 percent; the upswing mainly reflected the price of imported petroleum products, which increased 75.4 percent after decreasing 34.7 percent.

**Table 4.—Price Indexes (Fixed Weights): Change From Preceding Quarter**

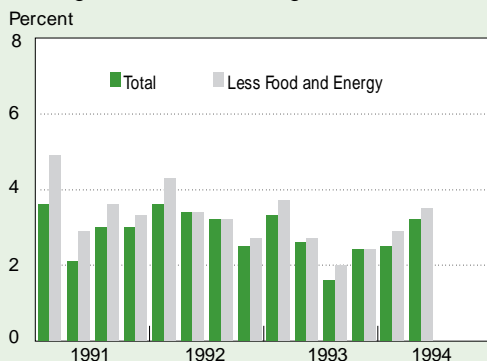
[Percent change at annual rates; based on seasonally adjusted index numbers (1987=100)]

	1993		1994	
	III	IV	I	II
<b>Gross domestic product</b> .....	<b>2.0</b>	<b>2.4</b>	<b>3.1</b>	<b>2.9</b>
Less: Exports of goods and services .....	.4	.6	3.8	2.8
Plus: Imports of goods and services .....	-2.8	1.1	-2.7	5.9
<b>Equals: Gross domestic purchases</b> .....	<b>1.6</b>	<b>2.4</b>	<b>2.5</b>	<b>3.2</b>
Less: Change in business inventories .....	.....	.....	.....	.....
<b>Equals: Final sales to domestic purchasers</b> ....	<b>1.6</b>	<b>2.4</b>	<b>2.5</b>	<b>3.2</b>
Personal consumption expenditures .....	1.4	2.8	1.9	2.8
Food .....	1.2	3.7	1.1	1.3
Energy .....	-4.7	1.9	-1.5	-8
Other personal consumption expenditures ....	1.8	2.7	2.3	3.4
Nonresidential fixed investment .....	1.5	1.6	2.5	2.4
Nonresidential structures .....	3.3	3.3	3.2	2.1
Producers' durable equipment .....	.5	.7	2.1	2.5
Residential investment .....	3.7	2.9	4.5	2.8
Government purchases .....	2.1	1.6	4.3	4.9
<b>Addenda:</b>				
Merchandise imports .....	-2.5	-.1	-2.6	7.3
Petroleum and products .....	-36.8	-26.3	-34.7	75.4
Other merchandise .....	1.6	2.6	.5	3.2

NOTE.—Percent changes in major aggregates are found in NIPA table 8.1. Most index number levels are found in tables 7.1 and 7.2.

## CHART 2

### Gross Domestic Purchases Prices (Fixed Weights): Change From Preceding Quarter



Note.—Percent change at annual rates from preceding quarter, based on seasonally adjusted index numbers (1987=100).

U.S. Department of Commerce, Bureau of Economic Analysis

## Personal income

Real disposable personal income (DPI) increased 3.0 percent in the second quarter after increasing 3.4 percent in the first (chart 3). The slowdown reflected an acceleration in the implicit price deflator for personal consumption expenditures, which is used to deflate current-dollar disposable personal income. The personal saving rate—saving as a percentage of current-dollar DPI—increased 0.4 percentage point to 4.0 percent.

Personal income increased \$97.0 billion in the second quarter after increasing \$71.2 billion in the first (table 5). The step-up was more than accounted for by rental income of persons, which increased \$17.8 billion after decreasing \$15.0 billion. The first-quarter decrease and the second-quarter increase in rental income reflected adjustments that were made to account for

damage resulting from the Northridge, California earthquake of January 17, 1994.<sup>2</sup>

Wage and salary disbursements increased \$50.2 billion after increasing \$59.9 billion. In private industry, deceleration was concentrated in the manufacturing and service industries. In government, a sizable second-quarter increase, which reflected the employee "buyouts," was not quite as large as the first-quarter increase, which had reflected locality pay adjustments and a military pay raise.

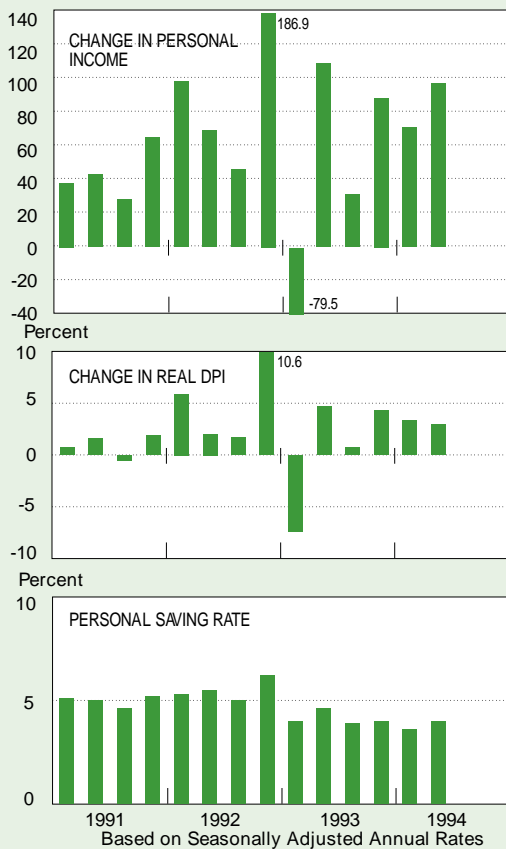
Farm proprietors' income decreased \$9.6 billion after increasing \$2.8 billion. Excluding subsidies, farm proprietors' income decreased \$6.6 billion after increasing \$6.1 billion; the downturn was accounted for by crop and livestock prices.

2. These adjustments reflected estimates of the extent of the earthquake's damage to fixed capital and the resulting effects on various components of personal income and on corporate profits. They were presented in the April 1994 "Business Situation."

### CHART 3

### Selected Personal Income and Saving Measures

Billions \$



Note—Changes are from preceding quarter.

U.S. Department of Commerce, Bureau of Economic Analysis

Nonfarm proprietors' income increased somewhat more than in the first quarter, when it had been reduced by adjustments for damage resulting from the earthquake.

Personal interest income increased \$12.9 billion after increasing \$3.4 billion. Interest income had decreased in 11 of the 12 quarters before the first-quarter increase. The step-up in the second quarter largely reflected increases in interest rates.

**Table 5.—Personal Income and Its Disposition**

[Billions of dollars; seasonally adjusted at annual rates]

	Level	Change from preceding quarter			
		1993		1994	
		III	IV	I	II
1994: II					
Wage and salary disbursements .....	3,258.5	30.8	32.5	59.9	50.2
Commodity-producing industries .....	811.5	5.0	9.6	10.9	9.6
Manufacturing .....	612.5	3.5	6.8	7.7	3.1
Other .....	199.0	1.5	2.8	3.2	6.5
Distributive industries .....	742.7	5.6	3.0	16.0	14.1
Service industries .....	1,101.6	15.1	18.2	25.0	19.6
Government and government enterprises .....	602.7	5.2	1.7	7.9	7.0
Other labor income .....	378.4	7.4	8.0	6.4	5.2
Proprietors' income .....	469.4	-18.5	42.6	8.1	-1.6
Farm .....	37.6	-23.6	28.6	2.8	-9.6
Nonfarm .....	431.8	5.1	14.0	5.3	8.0
Rental income of persons .....	33.1	2.9	4.0	-15.0	17.8
Personal dividend income .....	191.7	2.4	1.3	1.6	6.0
Personal interest income .....	644.0	-2.5	-6.4	3.4	12.9
Transfer payments to persons .....	957.0	11.2	9.4	16.4	9.6
Less: Personal contributions for social insurance .....	279.3	2.3	2.8	9.7	3.0
<b>Personal income .....</b>	<b>5,652.8</b>	<b>31.4</b>	<b>88.7</b>	<b>71.2</b>	<b>97.0</b>
Less: Personal tax and nontax payments .....	746.2	9.5	11.6	16.0	23.2
<b>Equals: Disposable personal income .....</b>	<b>4,906.7</b>	<b>21.9</b>	<b>77.1</b>	<b>55.2</b>	<b>73.9</b>
Less: Personal outlays .....	4,710.6	53.6	70.0	69.1	53.3
<b>Equals: Personal saving .....</b>	<b>196.1</b>	<b>-31.7</b>	<b>7.1</b>	<b>-13.9</b>	<b>20.6</b>
<b>Addenda: Special factors in personal income:</b>					
In wages and salaries:					
Federal Government and Postal Service pay adjustments ..		1.5	-9	2.7	1.8
Profit sharing and bonus pay .....		0	.4	1.7	-2.1
In farm proprietors' income:					
Agricultural subsidy payments .....		-10.8	13.9	-3.3	-3.0
Uninsured losses to residential and business property and crop losses due to Midwest floods and Southeast drought <sup>1</sup> .....		-9.3	6.1	3.2	0
In nonfarm proprietors' income:					
Uninsured losses to business property: <sup>1</sup>					
Due to Midwest floods .....		-7	.7	0	0
Due to Northridge, California earthquake .....		0	0	-1.4	1.4
In rental income of persons with CCAdj:					
Uninsured losses to nonfarm residential and business property: <sup>1</sup>					
Due to Midwest floods .....		-1.1	1.6	-5	0
Due to Northridge, California earthquake .....		0	0	-18.5	19.2
In transfer payments to persons:					
Social security retroactive payments .....		-2	1.2	-1.2	.1
Cost-of-living increases in Federal transfer payments .....		0	0	8.9	1.6
Emergency unemployment compensation payments .....		.1	-2.4	-4.7	-3.7
Midwest floods .....		.3	-1	-2	0
Northridge, California earthquake .....		0	0	1.4	-9
In personal contributions for social insurance:					
Social security rate and base changes and increase in premium for supplementary medical insurance and in medicare taxable wage base .....		0	0	6.2	0

1. These estimates mainly reflect adjustments to account for uninsured losses to residential and business property; however, some of the estimates include relatively small amounts reflecting other items.

NOTE.—Most dollar levels are found in NIPA table 2.1.

I/A Inventory valuation adjustment

CCAdj Capital consumption adjustment

Transfer payments to persons increased \$9.6 billion after increasing \$16.4 billion. The first-quarter increase had included \$8.9 billion in cost-of-living adjustments under social security and several other Federal retirement and income support programs.

Personal contributions for social insurance, which are subtracted in deriving the personal income total, increased \$3.0 billion after increasing \$9.7 billion. Most of the first-quarter increase had reflected changes in the social security pro-

gram and in the medicare and the supplementary medical insurance programs.

Personal tax and nontax payments increased \$23.2 billion after increasing \$16.0 billion. The step-up reflected the effects of provisions of the Omnibus Budget Reconciliation Act of 1993 that retroactively increased tax rates for high-income taxpayers. Persons affected by the rate increases had the option of paying the additional 1993 income tax in three annual installments, the first of which was due April 15, 1994. 